

THE VIABILITY OF A
NATIONAL SHELTER ALLOWANCE PROGRAM:
A CRITICAL ASSESSMENT
OF THE STEELE REPORT

Prepared for
The Co-operative Housing Foundation of Canada

By

The Social Planning Council
of Metropolitan Toronto

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EXECUTIVE SUMMARY

This paper has examined the most recent proposal for a national shelter allowance scheme, the viability of which was reviewed for the Canadian Home Builders Association (CHBA) by economist Marion Steele. In doing so, an effort was made to place this proposal within the larger debate regarding the most effective means of providing affordable and appropriate housing for low and moderate income renters.

The Steele study itself makes some telling admissions, concluding, among other things that:

- 1) the proposed program will do little to stimulate the demand for housing
- 2) at least 40 per cent of those eligible will not participate in the program
- 3) the program will do little or nothing to spur new construction
- 4) the 30 per cent of gross income criteria is too high a proportion for family households
- 5) the introduction of the program need not be linked to any plans to phase out rent regulation
- 6) social housing programs meet important needs which cannot be met adequately by the private market
- 7) a national shelter allowance would permit some curtailment in the expansion of social housing programs

In addition, our own analysis found that benefits in the proposed program are so narrowly targetted and of such limited amounts that the proposed program might more appro-

priately be viewed as a welfare program rather than as a housing program. We note in particular that:

- 1) the actual cost of implementing the proposed program would likely run from 30 to 90 per cent above Steele's cost projections
- 2) the claim of little or no rent inflation ultimately rests on the continuing protection accorded by rent review legislation
- 3) a full scale program to seriously address the affordability problems facing low and moderate income tenants would likely cost at least 4 to 8 times the projected costs contained in this proposal.
- 4) most households in need of assistance would receive no assistance at all, including many households living in poverty
- 5) many beneficiaries will continue to pay 35 to 40 per cent and more of their gross incomes in rent even after receiving the allowance
- 6) the number of eligible households may be substantially understated, particularly with reference to families

In short, the program as proposed will do nothing to increase the supply of housing for low and moderate-income renters. To the extent that a limited income-tested shelter subsidy has merit, it should be funded as part of the existing income security system through the Canada Assistance Plan.

There are many reasons to believe that future program costs would escalate substantially. This is particularly true if the implementation of a shelter allowance proposal were to be linked to rent deregulation. In this regard, it

is ironic that most proponents of a shelter allowance are opposed to the continuing tenant protection accorded by rent review legislation. This analysis leads us to conclude that scarce housing program dollars should be allocated toward supply programs aimed at improved cost-effectiveness in the delivery of mixed-income non-profit housing.

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THE VIABILITY OF A NATIONAL SHELTER ALLOWANCE PROGRAM:
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I. INTRODUCTION

1. The Debate Around Shelter Allowances

In recent years, shelter allowances have been advocated by various housing industry lobby groups, often in conjunction with the phasing out of provincial rent review legislation, as an essential part of any strategy to enable the private sector to increase its role in supplying rental housing without massive government assistance.

The Canadian Home Builders Association (CHBA) has commissioned a series of four research reports to present this case:

- . A Longer-Term Rental Housing Strategy for Canada,
by Clayton Research Associates (February, 1984);
- . Federal and Provincial Government Expenditures to Assist and Promote Rental Housing in Canada,
by Arthur Andersen and Company (May, 1984);
- . Rental Housing In Canada Under Rent Control and Decontrol Scenarios: 1985 - 1991 (2 Volume Set)
by Clayton Research Associates (November, 1984); and
- . Housing Allowances: An Assessment of the Proposal for a National Program for Canada,
by Marion Steele (January, 1985).

Taken together, these reports attempt to make a case for reducing the scope of programs designed to increase

housing supply and redirecting existing expenditures toward demand subsidies in the form of shelter allowances. Introduction of these demand subsidies in turn is usually linked to the deregulation of rents. Shelter allowances will assist those that would be harmed the most by large rent increases. Rent deregulation is advocated as an essential step in reducing the gap between prevailing rent levels and rent levels required to build and operate new rental projects on a full-recovery basis. It is viewed by the industry as necessary if the private rental sector is ever going to be able to produce significant quantities of new rental housing without massive government assistance.

It is important to place this study within the larger debate that is currently unfolding between those who view housing primarily as a commodity and form of investment versus those whose orientation is toward housing as meeting a basic human need, that of shelter.* The former view, reflected in the positions taken by the CHBA, seeks to improve the functioning of the private market to encourage developers to invest in new rental construction. The latter view, reflected in the positions taken by tenant advocates and social welfare agencies, stresses the need to expand the stock of affordable and appropriate housing available for low and moderate income tenants.

*For a fuller discussion see D. Hulchanski, Shelter Allowances and Canadian Housing Policy: A Review and Evaluation (Toronto: University of Toronto, Centre for Urban and Community Studies, 1983).

In relation to the specific issues of shelter allowances and rent deregulation, the CHBA position calls for:

- narrowing the gap between prevailing market rents and economic rents, the level required to ensure investors a sufficient rate of return on equity over the life of a project
- phasing out rent review to permit market rents to rise by at least 25 per cent, thereby encouraging new rental construction*
- introducing shelter allowances to cushion the impact on low-income renters, and to minimize the need for supply-side social housing programs.

From the perspective of social welfare agencies such as the Social Planning Council of Metropolitan Toronto, housing programs should be directed toward:

- substantially increasing the supply of rent-geared-to-income housing for both low and moderate income renters
- retaining rent review to ensure increases in rents are reasonably related to increases in operating costs
- considering shelter allowances only in terms of a limited welfare program to provide interim assistance until such time as the supply of rent-geared-to-income housing is adequate to meet the need.

Given the extremely tight rental markets which exist in many larger Canadian cities, notably in Toronto and Vancouver, the introduction of a national shelter allowance program might be expected to lead to substantial

*For a fuller discussion see Clayton Research Associates, Rental Housing in Canada Under Rent Control and Decontrol Scenarios: 1985 - 1991, (1984)

inflationary impacts. Depending on program parameters and alternative macro-economic assumptions, various studies between 1981 and 1984 have put the annual cost of such a program at between \$700 million and \$4 billion.*

The primary objective of this paper is to analyze in depth the proposals from the most recent shelter allowance study commissioned by the CHBA. Before getting into a detailed assessment of this proposal, the viability of which was analyzed for the CHBA by economist Marion Steele, we will make some more general observations about shelter allowances as they apply in Canada.

2. Shelter Allowances in Canada

Shelter allowances involve direct cash payments to eligible households which are portable and transferable from one dwelling to another. The arguments in favour of shelter allowances rest on the following premises: 1) they can be easily targeted to households in need; 2) to the extent that options exist in the market-place, they maximize choice since subsidies go to individual households, not dwelling units; 3) they achieve greater horizontal equity as assistance is provided all eligible households on an equal basis; and 4) they permit low-income households to participate more effectively as consumers in the private market,

*Marion Steele, Housing Allowances: An Assessment of the Proposal for a National Program for Canada (1985).

reducing the need for direct government intervention in housing supply.*

The costs of implementing a shelter allowance program can vary considerably depending on: 1) the types of households which are eligible; 2) income eligibility levels; 3) the choice of rent thresholds or ceilings;** and 4) the proportion of rent that is to be subsidized. The eventual cost will be strongly influenced by the existence of rent review legislation, as well as by market variables, such as housing cost inflation and vacancy rate characteristics.

In Canada there are currently shelter allowance programs in four provinces: British Columbia; Manitoba; New Brunswick and Quebec. All except the Manitoba program are designed to assist senior citizens aged 65 years and over. The Manitoba program is aimed at both families with children and older persons aged 55 years and over. All programs have income limits derived from base rents, with subsidies available to cover between 50 and 100 per cent of rental costs over a certain per cent of gross income, either 25 or 30 per cent.

*D. Hulchanski, Shelter Allowances and Canadian Housing Policy: A Review and Evaluation (Toronto: University of Toronto, Centre for Urban and Community Studies, 1983).

**Shelter allowance programs usually employ a maximum eligible rent, usually referred to as a threshold or ceiling rent, which may vary on the basis of household size.

The maximum eligible rent covered by the programs, commonly referred to as threshold rents varies from a low of \$205 for a single person in New Brunswick, to \$365 for a couple in British Columbia. Depending on the province concerned, as well as the size of the household, average payments per beneficiary range from \$40 to \$80/month.

II. THE NATIONAL SHELTER ALLOWANCE PROPOSAL

The Steele report analyzes the cost of a proposed national program targetted at people who pay more than 30 per cent of their gross income in rent. The proposed shelter allowance program would cover 75 per cent of the difference between the recipient's actual rent and an affordable rent for that household (designated by a rent level corresponding to 30 per cent of gross income). However, the program would also specify an upper limit on the level of rent eligible for assistance. Any portion of actual rent above the specified threshold level, which approximates the median rent for a suitable apartment unit in the provincial market area for that unit, would not be eligible for assistance.

The proposed program makes assumptions regarding the suitable number of bedrooms for households of differing size and composition in specifying threshold rent levels. The assistance available to households which are eligible for the program is limited by the threshold rent for an apartment unit which is deemed to be suitable to their needs even if their actual accommodation is larger. The following suitability limitations apply:

<u>Household Size/Type</u>	<u>Number of Bedrooms</u>
One-person: non-elderly	0
elderly	1
Two-person: non-elderly	1
elderly	2
Three or four-person	2
Five or more persons	3

Threshold rents were established on a province by province basis using estimated median rents for private market units with heat included in the rent in cities of 100,000 or more population. There was no attempt to estimate rent levels in relation to specific urban markets. This has clear implications for renters in higher cost urban centres where threshold levels may be 10 to 15 per cent below median rents.

It represents the most recent effort in a continuing attempt by private sector interests to develop a national shelter allowance plan within what are perceived to be politically acceptable cost parameters. The report projects that costs for a national shelter allowance program, operating within specified parameters, would be \$299 million in 1984. This is only a fraction of the costs anticipated by previous estimates noted earlier.

At first glance the proposed program looks like a bargain, but upon more careful examination a number of serious flaws and limitations appear. The remainder of this section draws particular attention to the most important weaknesses.

1. Tenant Affordability Problems Are Understated

In costing out the program, the report relies on market rent data for April 1982 and income data for 1981 which are

then projected to 1984 and 1983 respectively. By Steele's own analysis, rents have increased faster than inflation, while renters incomes have lagged behind inflation during this period. Between 1982 and 1984, the report projects an increase of 19 per cent in the average payment per household while the rate of inflation increased by only about 11 per cent.

Thus, the report confirms that the average shelter allowance payment grew between 7 and 8 per cent in real terms. Given existing program parameters, the average depth of need of participating households likely increased by more than 10 per cent during this two year period. Such a pattern should also be reflected among those households which were marginally excluded from the program in 1982, resulting in a sizable increase in program participants. Yet, the analysis projects little or no growth in participating households.

An examination of demographic changes in the composition and incomes of renting households during the last fifteen to twenty years helps to put these recent patterns in perspective. Increasingly, renting households are made up of one person and non-family households, headed by young people or the elderly. These groups all exhibit a significantly higher than average incidence of living in poverty than is the case for households as a whole.

Between 1961 and 1981, the percentage of renting households with only one person increased from 12.7 to 36.5 per cent. The proportion of households headed by persons under age 35 or over age 65 increased by about 30 per cent during this same period. The last fifteen years has seen an increased concentration of renting households among the lowest income groups. by 1982, more than 57 per cent of all renting households were in the lowest two income quintiles (covering 40 per cent of all households), while less than 23 per cent of renting households had incomes in the upper two income quintiles.*

The report uses the data base available through the survey of Household Income, Facilities and Equipment (HIFE), rather than the 1981 Census of Canada. Even with adjustments to provide greater comparability, the HIFE survey produces more than 200,000 renting households with affordability problems than does the Census, using either the 25 or 30 per cent of gross income criterion. Further, the HIFE data produces core need estimates which appear to significantly understate the affordability problems faced by families with children.**

*Clayton Research Associates, Rental Housing In Canada Under Rent Control and Decontrol Scenarios: 1985 - 1991 (1984).

**A 1982 survey of core housing need in Metropolitan Toronto found 75,000 renting households in need, slightly more than two-thirds of which were family households, and nearly half of which had children. Yet families with children make up only 28 per cent of program participants in the Steele analysis which relies on HIFE data.

Table 1
THE EXTENT OF AFFORDABILITY PROBLEMS
AMONG RENTING HOUSEHOLDS

	1981 Census of Canada	1982 HIFE (Microdata File)
	(000's)	(000's)
Renting Households Paying More Than:	Number (%)	Number (%)
30 Per Cent/Income	945 (30.5)	723 (24.1)
25 Per Cent/Income	1,234 (39.8)	975 (32.5)
20 Per Cent/Income	1,667 (53.8)	1,366 (45.5)

2. Provincial Program Comparisons Highlight Problems

Although the report draws heavily upon the cost characteristics of the more limited provincial shelter allowance programs to make its case that rent inflation would be minimal, the data presented in part contradicts this argument. In spite of the fact that threshold rents were not indexed to inflation in any of the four provinces between 1981/82 and 1983/84, expenditures per household grew 38 per cent in Manitoba and 28 per cent in British Columbia. For the four provinces as a whole, the increase was 24 per cent. This is entirely consistent with our earlier finding that rents have outstripped inflation while tenant incomes have lagged behind inflation during this period.

Further, the Steele analysis assumes a linear

relationship in terms of market impacts between the four small-scale provincial programs involving only 33,600 households and a national program involving 328,000 households. There are several reasons to question this hypothesis. First, the current small-scale programs are characterized primarily by elderly recipients living alone who are both less likely to move and have lower housing costs relative to families. Second, more than half the total recipients of the four provincial programs are in Quebec where rent levels are low relative to the rest of the country. Finally, the programs are poorly funded, with low rent thresholds that provide an average level of assistance of \$61 per month.

3. Minimal Upgrading of Housing Conditions

At least one in four tenant households requiring housing assistance live in rental units which are unsuitable or physically inadequate.* Often, such lower quality housing stock tends to be concentrated in specific neighbourhoods which exhibit rent levels below the median. With the introduction of a shelter allowance program, it would be reasonable to expect that recipients living in lower quality housing would attempt to upgrade their housing standards. To the extent that this occurs, program costs would increase.

*Metropolitan Toronto Planning Department, Metropolitan Toronto Assisted Housing Study: Part I (1983).

On the other hand, Steele asserts that this demand will be minimal. She argues that for most recipients the psychic and monetary costs of moving will outweigh the benefits of improving the quality of their housing. This is clearly the case for those households renting at slightly above or below the threshold rent. Further, more than 80 per cent of those paying less than the threshold rent are probably within \$50 to \$80 of it depending on the size of their unit. As such their maximum benefit in moving to more expensive accommodation would be \$35 to \$60 per month. Finally, in tight rental markets tenants would run the risk of being unable to find suitable accommodation at median rent levels.

Therefore, providing low-income renters with a shelter allowance will do little to improve the quality and appropriateness of their accommodation. Instead, it will only serve to improve their ability to afford the inadequate housing they already live in. To the extent that rent inflation occurred, the proposed program would reward landlords of inadequate housing by increasing the profitability of their investment while, at the same time, substantially increasing program costs to government. Alternatively, it could provide some low-income recipients with slightly more disposable income to spend on non-housing expenditures.

4. Eligibility Requirements Are Inadequate

While a 30 per cent of gross income criterion may be acceptable for one-person households as an affordability benchmark, our own research indicates that 20 or 25 per cent represents a more reasonable affordability criterion for most families. Steele herself makes this admission in presenting her analysis. She argues that the contribution rate should decline by household size to a rate of about 20 per cent for a five-person family.* A 30 per cent of gross income criterion related to families would leave many such households with inadequate disposable incomes to cover the costs of other basic needs.**

The rent threshold levels contained in Table 2 are derived from the 1982 threshold rents for Ontario used in the Steele study indexed to 1984 on the basis of changes in the rental component of the Consumer Price Index (CPI) for Metropolitan Toronto. Less than one in three private rental units within the Toronto housing market were renting at or below these levels in 1984. An upward adjustment of between 10 and 15 per cent in threshold rents would be necessary to bring them up to median rent levels for Metropolitan Toronto.

As a result, in high cost urban markets like Toronto

*Steele, Op.Cit.

**Social Planning Council of Metropolitan Toronto, Guides for Family Budgeting (1985).

and Vancouver, tenants renting accommodation at well below median levels will nonetheless exceed the permitted threshold rents and be eligible for only limited assistance. Coupled with the 30 per cent of gross income criterion and restrictions on the size of a suitable rental unit, the parameters of the proposed program exclude many working poor families as Table 2 illustrates. The proposal anticipates that even 40 per cent of those households deemed to be eligible for assistance would not participate. As a consequence, many families living below the poverty line would stand to receive no assistance whatsoever.

Table 2
ELIGIBILITY FOR RECEIVING ASSISTANCE
IN METROPOLITAN TORONTO, 1984

House- Hold Size	Rent Threshold*	Income Threshold for: Receiving Assistance	Lowest Quintile**	Poverty Level Income
1	285	\$11,400	\$7,700	\$9,900
2	330	\$13,200	\$15,650	\$13,050
3	385	\$15,400	\$22,550	\$17,450
4	385	\$15,400	\$26,900	\$20,100
5	455	\$18,200	n/a	\$23,400

*Based on household heads under age 65 in the case of one and two persons.

**80 per cent of households exceed this level of income.

In assessing the ability of the proposed shelter allowance program to meet the affordability problems experienced by low-income tenants, six case examples were examined. While they accept median market rents for Ontario as a

threshold level, the case examples apply a 25 per cent of gross income criterion for families and provide for a more reasonable determination of suitable unit size in some cases.

As Table 3 demonstrates, many households will receive shelter allowances which cover only 5 to 35 per cent of the gap between their actual rent and what they can afford to pay. Further, even after their shelter allowance payment such households will continue to pay up to 40 per cent of their gross income in rent (See Appendix A). This is especially the case for low-income renters in tight, higher cost markets such as Metropolitan Toronto where median market rents are 10 to 15 per cent above the permitted threshold levels.

Table 3

THE EFFECTIVENESS OF THE PROPOSED SHELTER ALLOWANCE PROGRAM
IN MEETING THE NEED FOR ASSISTANCE, 1984

Case Example	House- Hold Size	Gross Income	Actual Rent/ mo.	Unmet Need	Shelter allowance	Shelter Allowance as per cent of need	Remaining Shelter Gap
1	1	\$9,900	\$330	\$83	\$29	34.9	\$54
2	2	\$13,500	\$385	\$104	\$36	34.6	\$68
3	3	\$13,050	\$385	\$113	\$44	38.9	\$69
4	3	\$13,050	\$455	\$183	\$44	24.0	\$139
5	4	\$15,100	\$455	\$140	\$6	4.3	\$134
6	5	\$18,300	\$455	\$74	\$nil	0.0	\$74

5. Benefits Would Be Regressive

Another important weakness of the proposal in terms of meeting the need for assistance lies in the regressivity of the benefits received. Table 4 illustrates this point with reference to a four person family. Although the shelter allowance payment received declines with income, the unmet need for assistance remains highest for the lowest income family. Since the program covers only 75 per cent of unmet need, the lowest income tenants will continue to pay the highest proportion of their gross incomes in rent even after receiving benefits.

Table 4
RENT TO INCOME RATIOS FOR A FOUR PERSON FAMILY,
BY INCOME LEVEL, 1984

	At An Annual Income Level of:		
	\$8,000	\$12,000	\$16,000
Monthly Rent	455	455	455
Rent/Income Ratio (% Before)	68	46	34
Unmet Need*	288	205	122
Shelter Allowance	139	64	-
Allowance as % of Need	48	31	-
Remaining Shelter Gap	149	141	122
Rent/Income Ratio (% After)	47	39	32

*Based on an affordability criterion of 25 per cent of gross income.

6. Increased Housing Choice Would Be Minimal

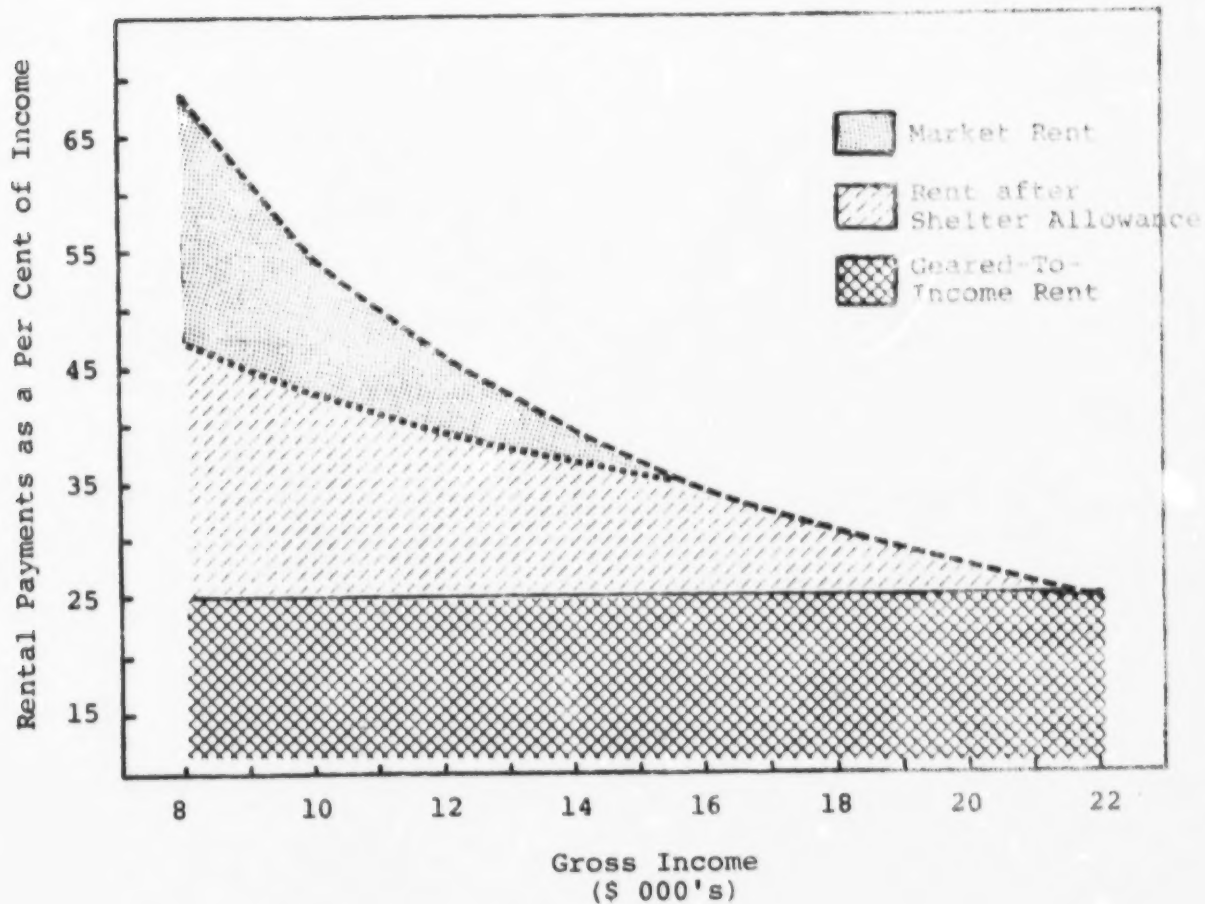
A problem with existing rental subsidies is that they are tied to particular units rather than households, thereby requiring low-income tenants to live in specific housing projects. This can create difficulties for seniors wanting to remain in their neighbourhoods, or single parents who do not wish to disrupt their children's schooling. On the other hand, those households whose locational preferences would suggest a move into private rental accommodation face a prohibitive cost in terms of increased rent as compared to what they would pay in subsidized housing.

Steele asserts that a national shelter allowance program would significantly increase the housing choices available to rent-geared-to-income tenants. Since the proposed allowance is designed to cover up to 75 per cent of the difference between median market rent and an affordable rent for that household, it could be expected to greatly reduce the constraint caused by the gap between low-end of private market rents and those available in rent-geared-to-income units.

Figure 1 assesses this claim by looking at the situation confronting a two parent/two child family in leaving a three bedroom subsidized unit to rent on the private market. It demonstrates that even with a shelter allowance such a family would face a rent increase of between 40 and 90 per cent depending on their gross income.

The conclusion is inescapable. The cost of moving from a rent-geared-to-income unit to a private apartment would be so prohibitive as to preclude such a move. The claim of increased housing choice is more myth than reality.

Figure 1
THE EFFECTIVENESS OF SHELTER ALLOWANCES
IN REDUCING THE GAP BETWEEN MARKET RENTS
AND GEARED-TO-INCOME RENTS*



*Based on a four person family renting a three bedroom apartment for \$455/month.

7. A Housing Subsidy or Welfare Program?

The previous discussion has demonstrated that the program as proposed has many serious limitations. It excludes many households with a clear need for assistance, while often restricting the assistance available to those households which do qualify to a small fraction of what is needed. The proposed program is of such limited scope and so narrowly targetted that it might more appropriately be thought of as a welfare program rather than a housing program. As such its costs should be funded under the Canada Assistance Plan rather than as a shelter allowance. For seniors the need for housing assistance might be funded under existing federal and provincial guaranteed income plans.

Such an approach may have some merit. If the benefits could be delivered through existing income security programs it would avoid the need for a duplicate bureaucracy and thus be much less costly to administer. Any mix of housing programs designed to increase the supply of affordable housing for low and moderate income tenants would need to be implemented over an extended time frame. The permanent stock of assisted, or rent-geared-to-income, housing increases only marginally each year. An income-tested shelter subsidy program directed primarily toward welfare recipients and the elderly could partially address the most severe affordability problems on an interim basis while

supply programs work to address this need more adequately over the longer term.

A clear weakness of the Steele report is its failure to deal with the issues that would need to be resolved between the federal and provincial governments regarding implementation. Several important questions arise: 1) to what extent should the federal government impose standards to ensure consistency and equality of treatment; 2) what would be the nature of the cost-sharing arrangements; 3) should the program be administered by a housing agency or as part of the income security system; 4) how much flexibility should the provinces have in setting program parameters; and 5) to what degree can methods of application and for determining eligibility be structured so as to minimize the welfare stigma involved.

When putting such a program in place, the federal government should look toward implementing those changes in the pension system recommended by the Parliamentary Task Force on Pension Reform which have not yet been fully implemented. It might also enter into consultation with the provinces around the conversion of all or part of existing property tax credits toward a shelter allowance program. The operation of the property tax credit in Ontario, for example, results in a fairly broad distribution of beneficiaries many of whom receive annual rebates of between \$100 and \$150. A re-structuring of the

program to more effectively target assistance to low and moderate income households should be strongly considered.*

Steele makes a good case for the extension of the shelter allowance proposal to low-income homeowners on equity grounds. While a number of administrative and technical difficulties would have to be worked out, excluding all homeowners simply on the basis of tenure is hard to justify. It would discriminate against working poor homeowners in favour of working poor renters, particularly in situations of temporary need resulting from unemployment. Furthermore, it would constitute the inequitable treatment of people living in small towns and rural areas relative to big cities where a significantly higher proportion of low-income households are homeowners.

The National Anti-Poverty Organization (NAPO) sees several potential difficulties with the administration of such a program from the standpoint of low-income tenants: 1) it does nothing to increase the supply of appropriate, affordable housing; 2) it would carry a welfare stigma and discourage people from applying for the allowance; 3) it would exclude many households in need of assistance; and 4) it would add another welfare bureaucracy that poor people have to deal with. Further, it may mean that the poor end

*R. M. Bird and N. E. Slack, Residential Property Tax Relief in Ontario, Ontario Economic Council, University of Toronto Press (1978).

up as pawns in a situation where the provinces try to reduce the shelter portion of welfare payments for recipients getting the national shelter allowance in order to transfer the cost of providing shelter from the provincial level to the federal level.*

In the face of rapidly mounting costs, governments preoccupied with fiscal restraint policies would likely use adjustments to the threshold rent levels as a way of reducing eligibility and program costs. Steele notes that threshold rents have not been indexed to inflation under any of the four provincial programs. During the recent economic recession, this is precisely what happened in relation to provincial social assistance rates.** A narrowly targetted shelter allowance program modelled along the lines of a welfare program could be expected to suffer a similar fate. Over time, the effectiveness of the program would be eroded as constrained rent thresholds leave higher and higher proportions of unmet need among eligible households.

8. Rent Deregulation and Rent Inflation

Linking the implementation of a national shelter allowance program to a gradual rent deregulation scheme

*The National Anti-Poverty Organization, Shelter Allowance: Affordable Housing For All or a Band-Aid Solution (1984).

**Social Planning Council of Metropolitan Toronto, The Adequacy of Welfare Benefits, Responding to the Recession, Social Infopac Vol. 3, No. 4 (1984).

makes little or no sense as public policy on either social or economic grounds. Rent regulation represents an important tool in ensuring stable rent levels and effective cost control after the introduction of a shelter allowance program. To remove such a safeguard would lead to substantial rent inflation.

Steele's conclusion that little or no rent inflation will occur is based on the limited observation that landlords would not know precisely which tenants receive an allowance, nor the amount that they receive. It is also based on the assumption of a linear relationship between the demand impacts of the small-scale provincial programs and those of a much larger national program.

The proposed program analyzed by Steele impacts primarily on the lowest third of the rental market, rather than on the market in general. This particular submarket contains few if any vacant units, and is the submarket for which private investors have found it unprofitable to supply new units. Further, lower cost rental units tend to be concentrated in specific neighbourhoods within a given market area.

It is reasonable to anticipate that landlords of such rental units will, on average, assume that their tenants can afford higher rents should a national shelter allowance program be introduced. This is very similar to the way many

rooming and boarding house operators respond to each announced increase in welfare benefits.

It is worth noting that the Steele report makes no comments or observations regarding the impact of rent deregulation on market rents. This is both ironic and disturbing in view of other recently commissioned research for the CHBA. This research produced estimates indicating that prevailing market rents for existing units would need to increase at least 25 per cent (in real terms) to enable private builders to contribute any significant amount to increasing supply in larger urban centres. There is no question that the large gap between prevailing market rents and economic rents operates as a major constraint on private sector investment in rental construction.

On the other hand, raising prevailing rents to a level high enough to provide a sufficient investment return to private developers would impose extraordinary costs on both renting households and governments. Depending on the method of estimation, somewhere between 18 and 32 per cent of renting households in Ontario cannot afford to pay prevailing market rent levels at present. Even a 20 per cent increase in market rents based on a gradual phasing out

*Clayton Research Associates, The Impact of Shelter Allowances, a report prepared for Canada Mortgage and Housing Corporation (Toronto: 1981); Marion Steele, Housing Allowances: An Assessment of the Proposal for a National Program for Canada (1985).

of rent review in Ontario would raise the proportion of households experiencing affordability problems to between 24 and 44 per cent.*

From a public policy viewpoint, the costs implied by such a massive transfer of income from tenants to landlords would be considerable. A 25 per cent real increase in prevailing market rents would mean:

- 1) a transfer of income from renting households to owners of rental property of between \$1.25 billion and \$1.5 billion annually in Ontario alone (perhaps as much as \$4 billion on a Canada-wide basis)**
 - an extremely regressive income transfer from primarily low and moderate income tenants to the owners of rental property
 - an enormous and continuing windfall profit directed to the owners of rental property without any assurance of increasing the supply of affordable housing
 - the redirection of \$4 billion from productive investment and consumer spending into the value of existing privately held assets in the housing sector.
- 2) an increase in the proportion of households experiencing affordability problems of between 35 and 50 per cent, with a somewhat larger increase in the average depth of need facing those households
 - depending on the parameters chosen, the average depth of need could be expected to increase by 50 to 70 per cent.

*The range reflects differences in the choice of an appropriate affordability benchmark usually 20, 25 or 30 per cent of gross income, applied to either the Census or HIFE data sets.

**Based on the average rent level in Canada, as contained in the Census for June 1981, updated to January 1985 using the rental component of the CPI.

- again, depending on the parameters chosen, such an increase could result in an escalation of perhaps 150 to 200 per cent in the costs of a national shelter allowance program.

The above analysis makes it unlikely that senior governments would introduce a national shelter allowance program without the rent stabilization and cost containment safeguards provided by rent regulations. To the extent that shelter allowances make sense, they should be implemented in combination with rent regulation, preferably with a rent registry in place through which tenants can determine the level of legally permitted increases. Therefore, shelter allowances should be seen solely in the context of targetting assistance to tenants in existing accommodation and not as part of a larger strategy to increase the supply of new rental construction.

9. Future Costs Would Escalate

It must be recognized, however, that a shelter allowance program designed to seriously address the affordability problems facing low and moderate income tenants would be considerably more expensive than the limited welfare program analyzed by Steele. Such a program would be designed to meet the full gap between actual rental payments and affordable rents. It would recognize that a 20 or 25 of gross income criterion would more equitably reflect the needs of families.

Such a program would employ threshold rent levels that approximate average rather than median rents since nearly 60 per cent of tenant households are in the two lowest income quintiles, and would relate thresholds to particular urban markets rather than relying on provincial averages. It should be administered in a manner which enables more than 60 per cent of eligible households to participate.

Even the limited shelter allowance program outlined by Steele would cost considerably more than the initial \$299 million cost estimate. First, it significantly underrepresents the number of family households with a core housing need. This is partly a function of relying on the HIFE data base, but also due to the inappropriate use of a 30 per cent of gross income criterion for families rather than 25 per cent. Second, in projecting the incidence of core need from 1982 to 1984, the proposal fails to make an adequate adjustment for the fact that tenant incomes declined 6 to 10 per cent relative to rents over this time period.

Incorporating these adjustments could raise the cost of the proposed program in 1985 from about \$317 million to between \$500 and \$600 million. Assuming the retention of rent regulation by the provinces, but no significant program to increase the permanent stock of rent-geared-to-income housing, the costs would escalate to perhaps \$1.25 billion by the turn of the century. If assumptions were made to

anticipate the direction of demographic shifts among tenant households, notably the increasing concentrations of low-income single persons and the elderly, then these cost projections would be even higher. (See Appendix B)

Legitimate concerns have been raised regarding housing expenditures generally. In particular, efforts are underway to improve the targetting and cost-effectiveness of the federal mixed-income non-profit programs. The Social Planning Council argued recently that a co-ordinated package of program improvements could be implemented to reduce per unit subsidy costs by at least 30 per cent.*

The expenditure levels necessary to finance a national shelter allowance program would pose a serious impediment to the government's attempts to adequately fund other program initiatives designed to increase the supply of appropriate and affordable housing for low and moderate income tenants over the longer term.

*Social Planning Council of Metropolitan Toronto, Strategies for Implementing A New Housing Agenda For Metropolitan Toronto (1985).

III. CONCLUSIONS

This paper has examined the most recent proposal for a national shelter allowance scheme, the viability of which was reviewed for the CHBA by economist Marion Steele. In doing so, an effort was made to place this proposal within the larger debate regarding the most effective means of providing affordable and appropriate housing for low and moderate income renters.

The Steele study itself makes some telling admissions, concluding, among other things that:

- 1) the proposed program will do little to stimulate the demand for housing
- 2) at least 40 per cent of those eligible will not participate in the program
- 3) the program will do little or nothing to spur new construction
- 4) the 30 per cent of gross income criteria is too high a proportion for family households
- 5) the introduction of the program need not be linked to any plans to phase out rent regulation
- 6) social housing programs meet important needs which cannot be met adequately by the private market
- 7) a national shelter allowance would permit some curtailment in the expansion of social housing programs

In addition, our own analysis found that benefits in the proposed program are so narrowly targetted and of such limited amounts that the proposed program might more appropriately be viewed as a welfare program rather than as a

housing program. We note in particular that:

- 1) the actual cost of implementing the proposed program would likely run from 30 to 90 per cent above Steele's cost projections
- 2) the claim of little or no rent inflation ultimately rests on the continuing protection accorded by rent review legislation
- 3) a full scale program to seriously address the affordability problems facing low and moderate income tenants would likely cost at least 4 to 8 times the projected costs contained in this proposal.
- 4) most households in need of assistance would receive no assistance at all, including many households living in poverty
- 5) many beneficiaries will continue to pay 35 to 40 per cent and more of their gross incomes in rent even after receiving the allowance
- 6) the number of eligible households may be substantially understated, particularly with reference to families

In short, the program as proposed will do nothing to increase the supply of housing for low and moderate-income renters. To the extent that a limited income-tested shelter subsidy has merit, it should be funded as part of the existing income security system through the Canada Assistance Plan.

There are many reasons to believe that future program costs would escalate substantially. This is particularly true if the implementation of a shelter allowance proposal were to be linked to rent deregulation. In this regard, it is ironic that most proponents of a shelter allowance are opposed to the continuing tenant protection accorded by rent

review legislation. This analysis leads us to conclude that scarce housing program dollars should be allocated toward supply programs aimed at improved cost-effectiveness in the delivery of mixed-income non-profit housing.

APPENDICES

- A. The Application of the Proposed National Shelter Allowance Program to Six Households Using Median Rents for Ontario
- B. Projecting the Future Costs of the Proposed Program

Appendix A

The Application of the Proposed National Shelter Allowance Program to Six Households Using Median Rents for Ontario

Introduction

The following six case examples examine the extent to which the proposed shelter allowance program addresses the affordability problems experienced by low-income tenants. In assessing the affordability problems faced by low-income families, the case examples apply a 25 per cent of gross income criterion. While they accept median market rents for Ontario as a threshold level, they provide for more reasonable allowances in the size of suitable units in several cases.

The six case examples do not include any households paying more than median Ontario rents despite the fact that more than two-thirds of all renting households in Metropolitan Toronto alone are paying above these amounts. As such, these case examples overstate the performance of the proposed program with reference to high cost urban markets like Toronto and Vancouver.

Case Example One

A single person under age 65 with a gross income in 1984 of \$9,900 (poverty level) renting a one-bedroom apartment at the median market rent of \$330/month.

The affordability gap faced by this household is defined as the difference between the median rent for a one-bedroom apartment and what it would be able to afford based on a 30 per cent of gross income criterion.

monthly rent	330
30 per cent of income	247
affordability gap	83

The proposed shelter allowance program would cover only 75 per cent of the difference between actual rental payments and the 30

per cent of gross income criterion, up to the median rent level for a bachelor apartment.

lower of actual or threshold rent	285
30 per cent of income	247
eligible shortfall x .75	38
shelter allowance payment	29

Comment

The shelter allowance covers only 34.9 per cent of the affordability gap facing this household. It reduces the actual rent payments of this household from 40 per cent of gross income to 36.5 per cent.

Case Example Two

A couple over age 65 living alone on a gross income of \$13,500 (just above the poverty level). They occupy a two bedroom apartment at the median market rent of \$385/month.

The affordability gap faced by this household is defined as the difference between the median rent for a two-bedroom apartment and what it would be able to afford based on a 25 per cent of gross income criterion.

monthly rent	385
25 per cent of income	281
affordability gap	104

The proposed shelter allowance program would cover only 75 per cent of the difference between actual rental payments and the 30 per cent of gross income criterion, up to the median rent level for a two-bedroom apartment.

lower of actual or threshold	385
30 per cent of income	337
eligible shortfall x .75	48
shelter allowance payment	36

Comment

The shelter allowance covers only 34.6 per cent of the affordability gap facing this household. It reduces the actual rent payments of this household from 34.2 per cent of gross income to 31 per cent.

Case Example Three

A single parent family (with a girl age 13 and a boy age 8) living on a gross income of \$13,050 in 1984 (about 75 per cent of the poverty level). They occupy a two-bedroom apartment at the median market rent of \$385/month. The boy sleeps in the livingroom on a sofabed.

The affordability gap faced by this household is defined as the difference between the median rent for a two-bedroom apartment

and what it would be able to afford based on a 25 per cent of gross income criterion.

monthly rent	385
25 per cent of income	272
affordability gap	113

The proposed shelter allowance program would cover only 75 per cent of the difference between actual rental payments and the 30 per cent of gross income criterion, up to the median rent level for a two-bedroom apartment.

lower of actual or threshold rent	385
30 per cent of income	326
eligible shortfall x .75	59
shelter allowance payment	44

Comment

The shelter allowance covers only 38.9 per cent of the affordability gap facing this household. It reduces the actual rent payments of this household from 35.4 per cent of gross income to 31.4 per cent.

Case Example Four

The same three person household as example two, except that they are occupying a three-bedroom apartment at the median market rent of \$455/month.

The affordability gap faced by this household is defined as the difference between the median rent for a three-bedroom apartment and what it would be able to afford based on a 25 per cent of gross income criterion.

monthly rent	455
25 per cent of income	272
affordability gap	183

The proposed shelter allowance program would cover only 75 per cent of the difference between actual rental payments and the 30 per cent of gross income criterion, up to the median rent level

for a two bedroom apartment. It would consider the third bedroom an unnecessary expense.

lower of actual or threshold rent	385
30 per cent of income	326
eligible shortfall x .75	59
shelter allowance payment	44

Comment

The shelter allowance covers only 24 per cent of the affordability gap facing this household. It reduces the actual rent payments of this household from 41.8 per cent of gross income to 37.8 per cent.

Case Example Five

A four person household made up of two parents and two children (a girl age 13 and a boy age 8) living on a gross income of \$15,100 in 1984 (about 75 per cent of the poverty level). They occupy a three-bedroom apartment at the median market rent of \$455/month.

The affordability gap faced by this household is defined as the difference between the median rent for a three-bedroom apartment and what it would be able to afford based on a 25 per cent of gross income criterion.

monthly rent	455
25 per cent of income	315
affordability gap	140

The proposed shelter allowance program would cover only 75 per cent of the difference between actual rental payments and the 30 per cent of gross income criterion, up to the median rent level for a two-bedroom apartment. It would consider the third bedroom an unnecessary expense.

lower of actual or threshold rent	385
30 per cent of income	377
eligible shortfall x .75	8
shelter allowance payment	6

Comment

The shelter allowance covers only 4.3 per cent of the affordability gap facing this household. It reduces the actual rent payments of this household from 36.2 per cent of gross income to 35.7 per cent.

Case Example Six

A five person household made up of two parents and three children (two girls age 3 and 13, and a boy 8) living on a gross income of \$18,300 in 1984 (more than \$5,000 below the poverty line). They occupy a three-bedroom apartment at the median market rent of \$455/month.

The affordability gap faced by this household is defined as the difference between the median rent for a three-bedroom apartment and what it would be able to afford based on a 25 per cent of gross income criterion.

monthly rent	455
25 per cent of income	381
affordability gap	74

The proposed shelter allowance program would cover only 75 per cent of the difference between actual rental payments and the 30 per cent of gross income criterion, up to the median rent level for a three-bedroom apartment.

lower of actual or threshold rent	455
30 per cent of income	458
eligible shortfall x .75	nil
shelter allowance payment	nil

Comment

This household would be ineligible for assistance under the parameters of the proposed program, despite having an affordability gap of \$74/month (\$888/year).

Conclusion

The preceding analysis clearly demonstrates that the proposed national shelter allowance program is of limited scope and very narrowly targetted. The six case examples chosen, three living at or near the poverty level and three living substantially below that level, paying median market rents for an appropriate sized unit, are precisely the kinds of households this program would be expected to serve.

The analysis reveals that none of the six case examples receive a benefit equal to more than 40 per cent of their needs. Three receive benefits of less than 25 per cent, while two receive little or no benefit at all. Many families living substantially below the poverty line will continue to pay 30 to 40 per cent of their gross incomes in rent, under the parameters of this proposal, even after receiving a shelter allowance.

Appendix B

Projecting the Future Costs of the Proposed Program

Some of the methodological weaknesses of the national shelter allowance proposal call for scenario adjustments to more accurately reflect the likely costs of implementing such a proposal.

Adjusted Scenario One

Preliminary income distribution data indicates that the incomes of the bottom two incomes quintiles dropped 6 to 10 per cent relative to the cost of living between 1981 and 1983. We conservatively estimate that this has added between 75,000 and 125,000 households to those in need of assistance.

Adjusted Scenario Two

The 1981 census data identifies about 200,000 more households as experiencing an affordability problem than does the HIFE data base used in the Steele analysis. Given the distribution of housing need identified in Metro Toronto Assisted Housing Study, there is reason to believe that the HIFE data base significantly under-represents the magnitude of need among family households. A further 75,000 to 125,000 household upward adjustment seems justified.

Adjusted Scenario Three

Our own research indicates that the application of a 30 per cent of gross income criterion to family households would leave many such households with inadequate disposable incomes to cover other basic needs. By the Steele report's own admission, a 20 to 25 per cent of gross income criterion may be more appropriate for families. An adjustment to a 25 per cent of gross income criterion for families would add at least 30 per cent to overall program costs.

In addition to these methodological refinements, there are at least two broad factors which would have a substantial impact on overall program costs in the longer term: the elimination of rent regulation; and, changes in tenants incomes relative to rent levels. The following revised scenarios use the costs projected for adjusted scenario two as a base.

Revised Scenario One

Demographic trends indicate that tenant incomes are likely to continue to decline relative to rents between 1985 and the turn of the century. This scenario is modelled along the lines of the demographic shifts of the last fifteen years and assumes that, on average, tenant incomes will decline 10 per cent relative to rent levels over the next fifteen years.

Revised Scenario Two

Private sector estimates indicate that the phasing out of rent regulation would need to result in a 25 per cent real increase in rent levels in order to enable private builders to play a serious role in increasing rental supply. This revised scenario examines the cost implications for a national shelter allowance of a 25 per cent increase in market rents phased in over five years, assuming that the threshold levels based on provincial median rents are adjusted accordingly.

Revised Scenario Three

This scenario incorporates the assumptions of the two previous ones in an attempt to assess the combined impact of declining tenant incomes and the elimination of the protection accorded by rent regulation.

Projecting the Future Costs of Implementing a
National Shelter Allowance Program,
1985 - 2000

(\$ millions)

Year	Initial Estimate Steele Report	Shelter Allowance Adjusted Scenarios			Shelter Allowance Revised Scenarios		
		1	2	3	1	2	3
1985	317*	406	464	600	483	561	584
1986	336	430	492	636	533	726	786
1987	356	456	521	674	587	973	1,096
1988	378	484	553	715	648	1,302	1,526
1989	400	513	586	757	714	1,764	2,149
1990	424	543	621	803	787	1,869	2,370
1991	450	576	658	851	868	1,981	2,613
1992	477	610	698	902	957	2,101	2,881
1993	505	647	740	956	1,056	2,227	3,177
1994	536	686	784	1,014	1,164	2,360	3,504
1995	568	727	831	1,075	1,284	2,501	3,863
1996	602	771	881	1,139	1,416	2,652	4,260
1997	638	817	934	1,207	1,561	2,811	4,698
1998	676	866	990	1,280	1,721	2,980	5,180
1999	717	918	1,049	1,357	1,898	3,157	5,712
2000	760	973	1,112	1,438	2,093	3,347	6,298

Notes: Updating the 1984 cost of \$299 million to 1985 based on a 6 per cent increase.
The above cost projections assume a 6 per cent annual inflation rate.